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Peru

Trade Policy Monitoring

Value Added Tax and Animal Products

2005

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Report Highlights:

After a two week strike of livestock producers and processors, GOP temporarily lifted the 19 percent value added tax on live animals, beef and products.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Lima [PE1]
[PE]

Summary

The GOP decided to temporarily lift the 19 percent value added tax on livestock, beef, offal and hides and skins. The tax authority's (SUNAT) resolution N°010-2005/SUNAT, states that this exemption will last until March 15, 2005.

Livestock producers and processors went on a nationwide strike on the first day of the year, protesting against a new advanced tax payment system implemented by SUNAT. This system aimed at reducing the increasing tax evasion in the sector by establishing that four percent of the sales value should be deposited by the customer in a bank account under the name of the seller. This four percent would then be discounted of the seller's 19 percent value added tax, but more important, the system would allow the government to track how much producers were actually selling.

Producers main argument is that 19 percent value added tax is too high and it is impossible to pay. Though that argument may have some truth, it is also true that most producers are already exempt of that payment because they are too small. The government is really aiming at the large middlemen/processors who, in many cases, are major tax evaders.

Another argument brought up by producers is that they are in a financial crisis and should pay no taxes, but the Minister of Agriculture has answered that there is no crisis with a 4.5 growth per year. MERCOSUR is another source on tension between livestock producers and the GOP. Producers claim that an FTA with MERCOSUR would hamper their economic development as it opened the market for cheaper beef. The FTA with MERCOSUR annexes containing the tariff reduction schedule have not been made public yet. The GOP has repeatedly told livestock producers that beef and beef products would be among the most protected products.

Since the tax exemption expires on March 15, producers have announced that they will resume the strike if a final solution to this issue is not reached. In the meanwhile, the GOP has formed a committee to study a possible solution. The Ministry of Economy, who is opposed to turn this exemption into a permanent one, has mentioned that a total \$12 million per year could be collected from livestock producers and that everyone should pay taxes, even if they are small producers.

Background

BEEF

Peru's beef industry is unique. Cattle is raised in the highlands for three purposes: traction, milk and as a way of savings. That cattle, after going through three of four middle men, is then sold to a feed lot on the coast for a three months intense fattening, after which is slaughter. Not having specialized beef breeds, slaughtering when cattle is too old and using them for traction makes Peruvian beef quality not particularly good.

YEAR	1999	2000	2001	2002	2003
PRODUCTION (MT)	133,524	136,233	137,790	142,501	145,000
IMPORTS (MT)	2,695	2,001	2,042	3,255	5,502

Most beef producers, especially in the provinces, are informal (do not pay taxes). Almost one hundred percent of the producers marketing chain in the provinces do not pay taxes. Nevertheless there is reduced group of feedlot owners, mainly in Lima, who have to be formal to be able to supply the supermarket chains and the upper end restaurants.

PORK

PRODUCTION (MT)

Year	1999	2000	2001	2002	2003
	92,921	94,701	94,959	84,892	86,800

Total swine population in Peru is about 3 million head; of which about 10 percent is produced modern operations and the rest raised in backyards. Peruvians still regard pork meat as being unhealthy, due to the meat characteristics (fat and cholesterol concerns) and the way most animals are raised. As a consequence, meat consumption is rather low, around 2.5 kilograms per capita per annum.

OFFALS

Peru does not produce enough beef offal to satisfy local demand, it imports mainly from Brazil, Argentina and the U.S. Australia, Uruguay and Canada are also frequent suppliers. Since these products are not consumed in their countries of origin, they are exported at very competitive prizes.

PRODUCTION (MT)

Year	1999	2000	2001	2002	2003
Heart	714	731	759	798	822
Liver	4,465	4,570	4,745	4,985	5,135
Stomach	4,465	4,570	4,745	4,985	5,135
Tongue	893	914	949	997	1,027

IMPORTS (MT, Calendar Year 2003):

Frozen Bovine Tongue		Frozen Bovine Liver		Other Offal	
Argentina	109	U.S.	1,939	Brazil	5,174
Brazil	28	Canada	829	Argentina	3,702
Uruguay	5	Argentina	633	Uruguay	818
Total	142	Uruguay	27	U.S.	10
		Total	3,428	Other	26
				Total	9,730